

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended.

Local Unit of Government Type <input type="checkbox"/> County <input type="checkbox"/> City <input type="checkbox"/> Twp <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other		Local Unit Name St. Joseph County Road Commission	County St. Joseph
Fiscal Year End December 31, 2006	Opinion Date April 12, 2007	Date Audit Report Submitted to State April 16, 2007	

We affirm that:

We are certified public accountants licensed to practice in Michigan.

We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).

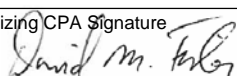
YES
NO

Check each applicable box below. (See instructions for further detail.)

1. ☒ ☐ All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
2. ☒ ☐ There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.
3. ☒ ☐ The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
4. ☒ ☐ The local unit has adopted a budget for all required funds.
5. ☒ ☐ A public hearing on the budget was held in accordance with State statute.
6. ☒ ☐ The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.
7. ☒ ☐ The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
8. ☒ ☐ The local unit only holds deposits/investments that comply with statutory requirements.
9. ☒ ☐ The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the *Bulletin for Audits of Local Units of Government in Michigan*, as revised (see Appendix H of Bulletin).
10. ☒ ☐ There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover.
11. ☒ ☐ The local unit is free of repeated comments from previous years.
12. ☒ ☐ The audit opinion is UNQUALIFIED.
13. ☒ ☐ The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
14. ☒ ☐ The board or council approves all invoices prior to payment as required by charter or statute.
15. ☒ ☐ To our knowledge, bank reconciliations that were reviewed were performed timely.

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

We have enclosed the following:	Enclosed	Not Required (enter a brief justification)		
Financial Statements	<input checked="" type="checkbox"/>			
The letter of Comments and Recommendations	<input checked="" type="checkbox"/>			
Other (Describe)	<input type="checkbox"/>			
Certified Public Accountant (Firm Name) REHMANN ROBSON		Telephone Number 517-787-6503		
Street Address 675 Robinson Road		City Jackson	State MI	Zip 49203
Authorizing CPA Signature 		Printed Name David M. Fisher, CPA		License Number 10337

**ST. JOSEPH COUNTY ROAD
COMMISSION**

(a Component Unit of St. Joseph County)

Centreville, Michigan

FINANCIAL STATEMENTS

For The Year Ended December 31, 2006



REHMANN ROBSON

Certified Public Accountants

ST. JOSEPH COUNTY ROAD COMMISSION
(a Component Unit of St. Joseph County)

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REHMANN ROBSON

Certified Public Accountants

A member of THE REHMANN GROUP



INDEPENDENT AUDITORS' REPORT

April 12, 2007

Members of the Board of County
Road Commissioners
County of St. Joseph, Michigan
Centreville, Michigan

We have audited the accompanying financial statements of the governmental activities and the major fund of the **ST. JOSEPH COUNTY ROAD COMMISSION**, a component unit of St. Joseph County, Michigan, as of and for the year ended December 31, 2006, which collectively comprise the Road Commission's basic financial statements, as listed in the table of contents. These financial statements are the responsibility of the St. Joseph County Road Commission's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and the major fund of the **St. Joseph County Road Commission** as of December 31, 2006, and the respective changes in financial position thereof and the budgetary comparison for the general fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The Management's Discussion and Analysis on pages 3-9 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements which collectively comprise the Road Commission's basic financial statements. The schedules listed in the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements of the **St. Joseph County Road Commission**. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

A handwritten signature in black ink, reading "Lehmann Johnson". The signature is written in a cursive, flowing style with a large initial 'L'.

MANAGEMENT'S DISCUSSION AND ANALYSIS

MANAGEMENT'S DISCUSSION AND ANALYSIS

As management of the St. Joseph County Road Commission, we offer the readers of the Road Commission's financial statements this narrative overview and analysis of the financial activities of the Road Commission for the fiscal year ended December 31, 2006.

Financial Highlights

The St. Joseph County Road Commission met the requirements of Governmental Accounting Standards Board (GASB) Statement No. 34 beginning with fiscal year end December 31, 2003.

Net assets may, over time, enable governmental agencies to determine their overall fiscal position. As shown on the St. Joseph County Road Commission Net Asset chart below, the Road Commission's assets exceeded liabilities by \$29,496,069 at the end of the fiscal year.

When comparing the fiscal year to the previous year, net assets have increased by \$178,472. This was comprised of a decrease of \$551,778 in net capital assets, and an increase of \$730,250 in unrestricted net assets.

At the end of the current fiscal period, unreserved fund balance was \$1,736,612, or 29% of total general fund expenditures.

The Road Commission's debt decreased by \$192,452 during the current fiscal year as a result of scheduled principal payments paid on installment debt; new debt was issued in the amount of \$367,132.

Overview of the Financial Statements

This discussion and analysis is intended to provide a basis of understanding the Road Commission's basic financial statements. These statements comprise three components: (1) government-wide financial statements (2) fund financial statements, and (3) notes to the financial statements. Supplementary information is also provided for additional informational purposes.

To simplify financial reporting and improve readability, the government-wide financial statements and the fund statements have been combined to report the statement of net assets and general fund balance sheet on a single page and the statement of activities and general fund revenues, expenditures and changes in fund balance on a single page. This report also contains other supplementary information in addition to the basic financial statements themselves.

Government-wide Statements

The statement of net assets presents information on all of the Road Commission's assets and liabilities, with the difference between the two reported as *net assets*. Over time, increases or decreases in net assets may serve as an indicator of the Road Commission's overall fiscal position.

The *statement of activities* presents information showing how the Road Commission's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, *regardless of the timing of related cash flows*. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in past or future fiscal periods (for instance, depreciation expense associated with capital assets).

The Road Commission is principally supported by state shared revenues (operating grants). The governmental activities of the Road Commission include providing construction, repair, maintenance, and snow removal of roads within St. Joseph County.

The government-wide financial statements include only the Road Commission itself. The Road Commission has no legally separate component units for which the Road Commission is financially accountable. In this report, financial information for the Road Commission is reported separately from the financial information presented for St. Joseph County, which reports the Road Commission as a component unit.

Fund financial statements. A *fund* is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The Road Commission, like other units of state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. The activity of the Road Commission is accounted for in a governmental fund (General Fund).

Governmental funds. *Governmental funds* (General Fund) are used to account for essentially the same functions reported in the government-wide financial statements. However, unlike the government-wide financial statements, general fund financial statements focus on *near-term inflows and outflows of spendable resources*, as well as on *balances of spendable resources* available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of the general fund is narrower than that of the government-wide financial statement's it is useful to compare the information presented for the general fund with similar information presented for *governmental activities* in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the general fund balance sheet and the general fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between the general fund and the government-wide statements.

The Road Commission maintains one governmental fund (the General Fund). Information is presented in the general fund balance sheet and in the general fund statement of revenues, expenditures, and changes in fund balances for the Road Commission. The general fund is a major fund for financial reporting purpose as defined by GASB Statement #34.

The Road Commission adopts an annual appropriated budget for its fund. Budgetary comparison statements have been provided herein to demonstrate compliance with those budgets.

The Road Commission does not maintain proprietary nor fiduciary funds.

Notes to the financial statements. The notes provide additional information that is essential to a full understanding of the data provided in the Road Commission's financial statements.

Other information. In addition to the basic financial statements and accompanying notes, this report also presents certain *required supplementary information*. This is limited to this management discussion and analysis.

Comparative condensed financial statement data follows:

Condensed Statement of Net Assets	<u>2006</u>	<u>2005</u>
Current Assets	\$ 3,645,352	\$ 2,886,754
Capital Assets	<u>27,499,827</u>	<u>27,876,925</u>
Total Assets	<u>31,145,179</u>	<u>30,763,679</u>
Long-term liabilities outstanding	491,936	319,684
Other liabilities	<u>1,157,174</u>	<u>1,126,398</u>
Total liabilities	<u>1,649,110</u>	<u>1,446,082</u>
Net assets:		
Invested in capital assets	27,138,691	27,690,469
Restricted	0	0
Unrestricted	<u>2,357,378</u>	<u>1,627,128</u>
Total net assets	<u>\$ 29,496,069</u>	<u>\$ 29,317,597</u>
 Condensed Statement of Activities		
Revenue		
State Aid	\$ 4,815,548	\$ 5,076,825
Federal sources	0	578,477
Local and other sources	<u>1,558,959</u>	<u>1,547,402</u>
Total revenue	<u>6,374,507</u>	<u>7,202,704</u>
Expenses		
Public Works	6,174,664	6,291,371
Debt Service - Interest only	<u>21,371</u>	<u>10,959</u>
Total expenses	<u>6,196,035</u>	<u>6,302,330</u>
Change in Net Assets	178,472	900,374
Net assets:		
Beginning of year	<u>29,317,597</u>	<u>28,417,223</u>
End of year	<u>\$ 29,496,069</u>	<u>\$ 29,317,597</u>

In 2006, the Road Commission had a net increase in fund balance of \$727,709. Expenditures were reduced in order to match declining revenue sources. On a government-wide basis, net assets decreased by approximately \$178,500, due primarily to the dynamics of depreciation expense exceeding the capital asset additions by approximately \$372,000.

The Road Commission amended its 2006 Revenue Budget to reflect a decrease in Michigan Transportation Fund (MTF) revenues. Due to delays in scheduling and availability of funding for federal and state aid projects in 2006, the budget was amended to eliminate this revenue source. At the time the 2006 budget was prepared, the Road Commission did not anticipate that the acquisition of four (4) truck chassis would take place in 2006. Therefore, lease installment proceeds were not included in the 2006 budget. Therefore, the revenue budget was amended to include lease proceeds in the amount of \$367,100. Revenue budgeted from local sources was increased because of a higher township participation on local road projects than what was originally projected.

Due to the postponement of several projects, the 2006 Expenditure Budget was amended to adjust road construction and maintenance costs and to reallocate monies between the primary and local road projects. The 2006 budget for equipment expense was projected to break even, but this expense was amended to reflect a reduction in expenses and a reduction in equipment rental earned, resulting in a loss on usage of equipment. The capital outlay expense was amended to reflect the 2006 delivery of four (4) truck chassis and to adjust for the cost of the construction of the salt/sand storage building at the Centreville Garage Facility, which was projected to be completed by December 31, 2006.

Capital Assets and Debt Administration

Capital Assets

Major capital asset events during the current fiscal year included the following:

- Construction of Salt/Sand Storage Building at Centreville Garage Facility \$111,122
- Re-construction of Salt/Sand Storage Dome at Three Rivers Garage Facility \$71,750
- Road equipment additions of \$563,849
- Infrastructure assets reflect construction and improvements to the primary and local road system

St. Joseph County Road Commission Capital Assets (net of depreciation):

	<u>2006</u>	<u>2005</u>
Land and improvements	\$ 7,886,981	\$ 7,693,239
Buildings	718,849	564,317
Road Equipment	893,772	828,098
Shop Equipment	68,782	71,808
Office Equipment	29,263	40,857
Engineering Equipment	10,660	12,875
Yard & Storage Equipment	0	0
Depletable Assets	55,953	55,956
Infrastructure		
Roads and Bridges	<u>17,835,567</u>	<u>18,609,775</u>
Total	<u>\$ 27,499,827</u>	<u>\$ 27,876,925</u>

Additional information on the Road Commission's capital assets can be found in Note 3 in the Notes to the Financial Statements.

Long-term Debt	<u>2006</u>	<u>2005</u>
Lease Purchase Agreements	\$ 361,135	\$ 186,456
Compensated absences	<u>130,800</u>	<u>133,228</u>
Total	<u>\$ 491,935</u>	<u>\$ 319,684</u>

In order to finance the purchase of four trucks in 2006, a lease purchase agreement was entered into in the amount of \$367,132. Additional information on the Road Commission's long-term debt can be found in Note 4 in the Notes to the Financial Statements.

Economic Factors and Road Fund Budgetary Highlights

In 2006, Michigan Transportation Funds (MTF) saw a 1.4% reduction in comparison with 2005 revenues. We do not anticipate an increase in MTF revenues during the 2007 fiscal year. After experiencing significant increases in the cost for fuels, grader blades, liquid asphalt, and utilities in 2005, and anticipating even higher costs in 2006, the Road Commission took steps to reduce expenses and postponed improvements to various primary roads. Instead, the Road Commission focused on improving local roads, which were completed with matching funds from the various townships.

In 2006, several bridges, eligible for State Local Bridge Funds, were in various stages of engineering and design, but had not progressed to the construction phase. Also, plans to improve Shimmel Road to All Weather standards, using Federal funds, were postponed to make those funds available for the replacement of the Lutz Road Bridge, in the event that State Local Bridge Funds could not be allocated for that project.

During 2006, the Road Commission continued to pursue Federal enhancement funding for the restoration of the historic Langley Covered Bridge. Engineering and design studies revealed that the estimated cost of the project far exceeded the original approved grant amount.

Due to these delays, no federally funded projects were completed in 2006. In 2007, the Road Commission will be requesting approval for an increase in grant funds for the Langley Covered Bridge and will continue to pursue funding for various eligible bridge projects throughout the county. The Road Commission will be proceeding with the Shimmel Road project. Also, the replacement of the Big Hill Road Bridge and the Lutz Road Bridge will be completed in 2007.

The Road Commission is a member of the Michigan County Road Commission Self-Insurance Pool for its liability and property insurance coverage. The Road Commission received a significant refund of over \$224,000.00 in 2006. Although there are several factors that make the insurance funds available to be refunded, the members' continued commitment to a proactive loss control program contributes greatly. Although refunds may be available in the future, the Pool has cautioned that the refunds not be included in Road Commission budgets as expected income. This refund, along with the postponement of projects in 2006 resulted in higher than normal cash and cash investments as of December 31, 2006, which will carry over into 2007 and will be spent on road and bridge projects and capital outlay expenditures.

Building a salt/sand storage structure at the Centreville Garage Facility has been a long-term goal of the Road Commission and construction began in 2006. The foundation was in place by the end of the year, with the project being completed in early 2007.

In 2004, St. Joseph County voters passed a ten (10) year renewal of a countywide road millage of 1 mill, which is designated for Local Road Maintenance. This millage will generate approximately \$1,050,000 in 2007, and represents approximately 15% of the Road Commission's total operating revenue.

In 2006 the Road Commission contracted with Fleis and Vandenbrink in Grand Rapids to conduct a groundwater sampling and analysis to define the extent of chloride impact at the Road Commission's former Leonidas Garage Facility in the unincorporated Village of Leonidas, which was sold in 1992. This action was taken in response to a Demand Letter received from the Michigan Department of Environmental Quality (DEQ) for the voluntary performance of certain response activities. The DEQ identified the Road Commission as liable for response activities under Part 201, Environmental Remediation, of the Natural Resources and Environmental Protection Act, 1994, PA 451, as amended, for sodium and chloride concentrations found in Leonidas residents' drinking water. The findings indicate that there are multiple sources causing the contamination. The Road Commission will be meeting with the DEQ in the near future to discuss the sampling and analysis results and potential solutions. Based on these findings, it is likely that the Road Commission will share in the cost of the potential solutions, which at this time is undetermined.

The Road Commission anticipates that increases in the cost of fuel, utility costs, materials and equipment and declining MTF revenues will continue to impact Road Commission resources.

Requests for Information

This financial report is designed to provide a general overview of Commission's finances for all those with an interest in the component unit's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the St. Joseph County Road Commission, 20914 M-86, Centreville, MI 49032.

BASIC FINANCIAL STATEMENTS

ST. JOSEPH COUNTY ROAD COMMISSION

STATEMENT OF NET ASSETS AND GENERAL FUND BALANCE SHEET

DECEMBER 31, 2006

	General Fund	Adjustments	Statement of Net Assets
ASSETS			
Cash and cash equivalents	\$ 853,299	\$ -	\$ 853,299
Accounts receivable			
Motor vehicle highway funds	744,378	-	744,378
Due on county road agreements	218,320	-	218,320
Taxes	1,062,197		1,062,197
Other	11,315	-	11,315
Inventories			
Road materials	613,199	-	613,199
Equipment material and parts	142,644	-	142,644
Capital assets			
Assets not being depreciated	-	7,886,981	7,886,981
Assets being depreciated, net	-	19,612,846	19,612,846
Total assets	<u>\$ 3,645,352</u>	<u>27,499,827</u>	<u>\$ 31,145,179</u>
LIABILITIES			
Accounts payable	\$ 56,284	-	\$ 56,284
Accrued liabilities	38,684	4,277	42,961
Deferred revenue - property taxes	1,052,129	-	1,052,129
Performance bonds held	5,800	-	5,800
Long-term liabilities			
Due within one year	-	200,798	200,798
Due after one year	-	291,138	291,138
Total liabilities	<u>1,152,897</u>	<u>496,213</u>	<u>1,649,110</u>
Fund Balance/Net Assets			
Fund balance			
Reserved for inventories	755,843	(755,843)	-
Unreserved, undesignated	1,736,612	(1,736,612)	-
Total fund balance	<u>2,492,455</u>	<u>(2,492,455)</u>	<u>-</u>
Total liabilities and fund balance	<u>\$ 3,645,352</u>		
Net Assets:			
Invested in capital assets, net of related debt		27,138,691	27,138,691
Unrestricted		2,357,378	2,357,378
Total net assets		<u>\$ 29,496,069</u>	<u>\$ 29,496,069</u>

The accompanying notes are an integral part of these financial statements.

ST. JOSEPH COUNTY ROAD COMMISSION

Reconciliation of General Fund Balance Sheet to Statement of Net Assets

DECEMBER 31, 2006

Fund balance - General Fund	\$ 2,492,455
Amounts reported for <i>governmental activities</i> in the statement of net assets are different because:	
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.	27,499,827
Long - term liabilities are not due and payable in the current period and are not reported in the funds:	
Installment lease purchase agreements payable	(361,136)
Certain liabilities, such as compensated absences, are not due and payable in the current period and therefore are not reported in the funds:	
Deduct - accrued interest payable	(4,277)
Deduct - compensated absences payable	<u>(130,800)</u>
Net assets of governmental activities	<u><u>\$ 29,496,069</u></u>

The accompanying notes are an integral part of these financial statements.

ST. JOSEPH COUNTY ROAD COMMISSION

STATEMENT OF ACTIVITIES AND GENERAL FUND REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE

FOR THE YEAR ENDED DECEMBER 31, 2006

	General Operating Fund	Adjustments	Statement of Activities
EXPENDITURES/EXPENSES			
Current:			
Public works	\$ 5,799,994	\$ 374,670	\$ 6,174,664
Debt service:			
Principal	192,452	(192,452)	-
Interest	21,484	(113)	21,371
TOTAL EXPENDITURES/EXPENSES	6,013,930	182,105	6,196,035
PROGRAM REVENUES			
Charges for services	476,308	-	476,308
Operating grants and contributions	4,845,548	-	4,845,548
TOTAL PROGRAM REVENUES	5,321,856	-	5,321,856
NET PROGRAM REVENUES			(874,179)
GENERAL REVENUES			
Property taxes	1,014,444	-	1,014,444
Proceeds from installment lease	367,132	(367,132)	-
Interest earned	35,471	-	35,471
Property rentals	2,736	-	2,736
TOTAL GENERAL REVENUES	1,419,783	(367,132)	1,052,651
NET CHANGE IN FUND BALANCE	727,709	(727,709)	
CHANGE IN NET ASSETS		178,472	178,472
FUND BALANCE/NET ASSETS,			
Beginning of year	1,764,746	27,552,851	29,317,597
FUND BALANCE/NET ASSETS, End of year	\$ 2,492,455	27,003,614	\$ 29,496,069

The accompanying notes are an integral part of these financial statements.

ST. JOSEPH COUNTY ROAD COMMISSION

Reconciliation of the General Fund Revenues, Expenditures and Changes in Fund Balance to the Statement of Activities

FOR THE YEAR ENDED DECEMBER 31, 2006

Net change in fund balances - General Fund	\$ 727,709
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Amounts reported for *governmental activities* in the statement of activities are different because:

Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.

Add - capital outlay	778,837
Add - Infrastructure additions	740,904
Deduct - depreciation expense	(1,891,916)

Installment lease contract proceeds provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the statement of net assets. Repayment of debt principal is an expenditure in the funds but not in the statement of activities:

Installment loan proceeds	(367,132)
Lease purchase installment principal payments	192,452

Interest expense is recorded in the statement of activities when a liability is incurred; it is reported in the funds only when payment is due	113
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Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in the funds.

Equipment retirements and adjustments	(4,923)
Decrease in compensated absences	2,428

Change in net assets of governmental activities	<u>\$ 178,472</u>
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The accompanying notes are an integral part of these financial statements.

ST. JOSEPH COUNTY ROAD COMMISSION

STATEMENT OF REVENUE, EXPENDITURES AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL GENERAL OPERATING FUND

FOR THE YEAR ENDED DECEMBER 31, 2006

	ORIGINAL BUDGET	AMENDED BUDGET	ACTUAL	VARIANCE - OVER (UNDER)
REVENUE				
Permits	\$ 13,500	\$ 9,500	\$ 10,134	\$ 634
Intergovernmental:				
Federal sources	70,000	-	-	-
State sources	5,820,000	4,799,000	4,815,548	16,548
Local sources	325,000	450,000	461,049	11,049
Charges for services	2,000	6,500	6,521	21
Interest and rentals	27,500	35,500	38,207	2,707
Taxes	990,000	1,010,000	1,014,444	4,444
Transfer from primary government	30,000	30,000	30,000	-
Other	5,000	(3,450)	(1,396)	2,054
TOTAL REVENUE	7,283,000	6,337,050	6,374,507	37,457
EXPENDITURES				
Current:				
Primary heavy maintenance	1,200,000	55,000	42,276	(12,724)
Local heavy maintenance	1,250,000	670,000	677,523	7,523
Primary maintenance	1,210,000	1,560,000	1,540,003	(19,997)
Local maintenance	2,831,000	2,816,000	2,703,399	(112,601)
Equipment - net	-	160,000	195,787	35,787
Administrative - net	425,000	425,000	435,344	10,344
Other	-	-	4,678	4,678
Capital outlay - net	(50,000)	342,700	200,984	(141,716)
Debt service	214,500	214,500	213,936	(564)
TOTAL EXPENDITURES	7,080,500	6,243,200	6,013,930	(229,270)
REVENUE OVER EXPENDITURES	202,500	93,850	360,577	266,727
OTHER FINANCING SOURCES				
Proceeds from installment lease	-	367,100	367,132	32
NET CHANGE IN FUND BALANCE	202,500	460,950	727,709	266,759
FUND BALANCE, Beginning of year	1,764,746	1,764,746	1,764,746	-
FUND BALANCE, End of year	\$ 1,967,246	\$ 2,225,696	\$ 2,492,455	\$ 266,759

The accompanying notes are an integral part of these financial statements.

NOTES to FINANCIAL STATEMENTS

ST. JOSEPH COUNTY ROAD COMMISSION

NOTES TO FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the St. Joseph County Road Commission (the “Road Commission”) conform to generally accepted accounting principles as applied to governmental units. The following is a summary of the significant policies.

Reporting Entity

The St. Joseph County Road Commission, referred to as the Road Commission, is a discrete component unit of the County of St. Joseph, Michigan. The Road Commission was established pursuant to the county road law (MCL 224.1), and is governed by a three member Board of County Road Commissioners appointed by the County Board of Commissioners.

The criteria established by the Governmental Accounting Standards Board Statement No. 14, “The Financial Reporting Entity”, for determining the reporting entity includes having significant financial or operational relationships. Based on the above criteria, these financial statements present the St. Joseph County Road Commission, a discretely presented component unit of St. Joseph County, and include the Road Commission General Operating Fund.

The Road Commission General Operating Fund is used to control the expenditures of Michigan Transportation Fund monies distributed to the County, which are earmarked by law for street and highway purposes. The Board of County Road Commissioners has responsibility for the administration of the Road Commission’s General Operating Fund.

Basis of Presentation

Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the activities of the primary government. *Governmental activities* are supported by charges for services and intergovernmental revenues.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *Program revenues* include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Internally dedicated resources are reported as general revenues rather than as program revenues.

As permitted by GASB Statement No. 34, the Road Commission uses an alternative approach reserved for single program governments to present combined government-wide and fund financial statements by using a columnar format that reconciles individual line items of fund financial data to government-wide data in a separate column. Accordingly, this is presented in the Statement of Net Assets and Governmental Funds Balance Sheet and the Statement of Activities and Governmental Fund Revenues, Expenditures and Changes in Fund Balances. The general fund, the sole major governmental fund, is reported as a separate column in the aforementioned financial statements.

ST. JOSEPH COUNTY ROAD COMMISSION

NOTES TO FINANCIAL STATEMENTS

Measurement Focus Basis of Accounting and Financial Statement Presentation

The government-wide financial statements (statement of net assets and the statement of activity) are reported using the *economic resources measurement focus* and the *accrual basis of accounting*. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund (general fund) financial statements (general fund balance sheet and general fund revenues, expenditures and changes in fund balance) are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences not expected to be paid in the current year and claims and judgments, are recorded only when payment is due.

State and grant revenue, licenses and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the government.

The government reports the following major governmental fund:

The *general fund* is the government's primary operating fund. It accounts for all financial resources of the general government.

Budgetary Data

The governmental fund is under formal budgetary control. The budget shown in the financial statements was adopted on a basis consistent with generally accepted accounting principles (GAAP), which is the modified accrual basis used to reflect actual results, and consists only of those amounts contained in the formal budget as originally adopted or as amended by the Board of County Road Commissioners. The budget for the General Operating Fund is adopted on a functional basis, and in accordance with the Uniform Budgeting and Accounting Act as prescribed by the State of Michigan. Variances at the functional level of control are disclosed in the accompanying *Statement of Revenue, Expenditures and Changes in Fund Balance – Budget and Actual*.

ST. JOSEPH COUNTY ROAD COMMISSION

NOTES TO FINANCIAL STATEMENTS

Inventory

Inventory consists of various operating parts, supplies, and road material, and the cost is recognized using the consumption method (inventories recorded as expenditures when they are used). Inventories are stated at average cost determined on a first-in, first-out method, except for road materials, which are determined on the average cost method, and are not in excess of fair value.

Fund Balance Reservations

In the fund financial statements, governmental funds report reservations of fund balances for amounts that are not available for appropriation.

Capital Assets

Capital assets, which include property, equipment and infrastructure assets (roads, bridges and similar items) are reported in the government-wide statements (statement of net assets and statement of changes in net assets). Capital assets are defined by the Road Commission as assets with an initial cost of \$5,000 or more and an estimated life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date donated.

The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized.

Capital assets are recorded as capital expenditures at the time of purchase in the fund financial statements (general fund balance sheet and statement of general fund revenues, expenditures and changes in fund balance) and are subsequently capitalized on the government-wide statements through an adjustment to the governmental fund (general fund) column.

The Uniform Accounting Procedures prescribed for Michigan County Road Commissions provide for recording depreciation in the General Operating Fund as a charge to various expense accounts and a credit to the depreciation contra expense account. Accordingly, the annual depreciation expense does not affect the available operating fund balance of the General Operating Fund.

Depreciation is recorded over the estimated useful lives (ranging from five to fifty years) of the assets, using the sum-of-years digits method for road equipment and straight-line method for all other capital assets and infrastructure as follows:

	<u>Years</u>
Buildings and improvements	40
Equipment	5 to 8
Infrastructure	8 to 50

Deferred Compensation Plan

The Road Commission offers its employees a deferred compensation plan created in accordance with IRS section 457. The plan, available to all Commission employees, permits them to defer a portion of their current salary until future years. A trust has been established for the plan assets and the related assets and liability are not included in the Road Commission's financial statements.

ST. JOSEPH COUNTY ROAD COMMISSION

NOTES TO FINANCIAL STATEMENTS

Long-term Obligations

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in governmental activities. Bond premiums and discounts are deferred and amortized over the life of the bonds using the straight-line method. Bonds payable are reported net of the applicable bond premium or discount. As permitted by GASB Statement No. 34, the Road Commission has elected to apply the provisions related to bond premiums, discounts, and issuance costs on a prospective basis.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

Compensated Absences

Under existing general Road Commission rules and regulations and its Labor Agreement, all regular full-time employees are eligible for paid leave in varying amounts based on number of years of service completed by each employee as of the preceding calendar year.

2. CASH DEPOSITS AND INVESTMENTS

Deposits

At December 31, 2006, the amount of the Road Commission's deposits were as follows:

	<u>Carrying Amount</u>	<u>Bank Balance</u>
Insured	\$ -	\$ 28,071
Held by St. Joseph County *		
Cash on deposit	<u>853,299</u>	<u>851,583</u>
	<u>\$ 853,299</u>	<u>\$ 879,654</u>

* Deposits of the Road Commission held by St. Joseph County may be partially covered by federal depository insurance. The amount of federal depository insurance is determined for the County as a whole, but cannot be separately identified for the Road Commission.

Statutes authorize the Road Commission to invest funds in the following:

- Bonds, securities, other obligations and repurchase agreements of the United States, or an agency or instrumentality of the United States
- Certificates of deposit, savings accounts, deposit accounts or depository receipts of a qualified financial institution

ST. JOSEPH COUNTY ROAD COMMISSION

NOTES TO FINANCIAL STATEMENTS

- Commercial paper rated at the time of purchase within the 2 highest classifications established by not less than 2 standard rating services and that matures not more than 270 days after the date of purchase
- Bankers acceptances of United States banks
- Obligations of the State of Michigan and its political subdivisions that, at the time of purchase are rated as investment grade by at least one standard rating service
- Mutual funds registered under the investment company act of 1940 with the authority to purchase only investment vehicles that are legal for direct investment by a public corporation
- External investment pools as authorized by Public Act 20 as amended through 12/31/97

Investment and deposit risk

Interest Rate Risk. State law limits the allowable investments and the maturities of some of the allowable investments as identified in the listing of authorized investments above. The Road Commission's investment policy does not have specific limits in excess of state law on investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates. The Road Commission has no investments at December 31, 2006.

Credit Risk. State law limits investments to specific government securities, certificates of deposits and bank accounts with qualified financial institutions, commercial paper with specific maximum maturities and ratings when purchased, bankers acceptances of specific financial institutions, qualified mutual funds and qualified external investment pools as identified in the list of authorized investments above. The Road Commission's investment policy does not have specific limits in excess of state law on investment credit risk. The Road Commission has no investments at December 31, 2006.

Custodial Credit Risk – Deposits. Custodial credit risk is the risk that in the event of a bank failure, the Road Commission's deposits may not be returned. State law does not require and the Road Commission does not have a policy for deposit custodial credit risk. As of December 31, 2006, none of the Road Commission's bank balance of \$28,071 was exposed to custodial credit risk because the entire amount was insured. Deposits in the amount of \$851,583 held by St Joseph County may be partially covered by federal depository insurance. The amount of federal depository insurance is determined for the County as a whole, but cannot be separately identified for the Road Commission.

Custodial Credit Risk – Investments. For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the Road Commission will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. State law does not require and the Road Commission does not have a policy for investment custodial credit risk.

Concentration of Credit Risk. State law limits allowable investments but does not limit concentration of credit risk as identified in the list of authorized investments above. The Road Commission's investment policy does not have specific limits in excess of state law on concentration of credit risk. The Road Commission has no investments at December 31, 2006.

ST. JOSEPH COUNTY ROAD COMMISSION

NOTES TO FINANCIAL STATEMENTS

3. CAPITAL ASSETS

Changes in the components of the capital assets are summarized as follows:

	Balance January 1, 2006	Additions	Deductions	Balance December 31, 2006
Capital assets not being depreciated:				
Land	\$ 226,258	\$ -	\$ -	\$ 226,258
Infrastructure land improvements	7,466,981	193,742	-	7,660,723
Total capital assets not being depreciated	7,693,239	193,742	-	7,886,981
Capital assets being depreciated:				
Buildings and improvements	1,057,361	192,063	11,304	1,238,120
Road equipment	6,738,903	563,849	10,400	7,292,352
Shop equipment	316,576	13,758	2,121	328,213
Office equipment	143,624	8,942	2,438	150,128
Engineers' equipment	50,998	225	(3,130)	54,353
Yard and storage	24,355	-	-	24,355
Depleteable assets	128,851	-	-	128,851
Infrastructure	38,469,246	547,162	-	39,016,408
Total capital assets being depreciated	46,929,914	1,325,999	23,133	48,232,780
Accumulated depreciation and depletion:				
Buildings and improvements	493,044	30,292	4,065	519,271
Equipment	6,320,820	540,249	14,145	6,846,924
Depleteable assets	72,896	2	-	72,898
Infrastructure	19,859,468	1,321,373	-	21,180,841
Total accumulated depreciation and depletion	26,746,228	1,891,916	18,210	28,619,934
Total capital assets being depreciated - net	20,183,686	(565,917)	4,923	19,612,846
Governmental activities capital assets - net	\$ 27,876,925	\$ (372,175)	\$ 4,923	\$ 27,499,827

ST. JOSEPH COUNTY ROAD COMMISSION

NOTES TO FINANCIAL STATEMENTS

4. LONG-TERM DEBT

Long-term debt of the Road Commission consists of the following:

	<u>Balance January 1, 2006</u>	<u>Increases</u>	<u>Reductions</u>	<u>Balance December 31, 2006</u>	<u>Due Within One Year</u>
Land contract and installment lease purchase agreements	\$ 186,456	\$ 367,132	\$ 192,452	\$ 361,136	\$ 170,798
Compensated absences	133,228	-	2,428	130,800	30,000
Totals	\$ 319,684	\$ 367,132	\$ 194,880	\$ 491,936	\$ 200,798

Capital Leases

The Road Commission has the following remaining installment lease contracts, each of which is secured by the related equipment, as follows:

<u>Equipment</u>	<u>Annual Installments Including Interest</u>	<u>Interest Rate</u>	<u>Due</u>
1. John Deere- 2 tractors, 2 mowers	\$38,758	4.25%	May 2, 2007
2. MSG International Trucks (4) - 2003	\$45,248	3.73%	June 15, 2007
3. MSG International Trucks (4) - 2006	\$100,570	3.76%	September 9, 2009

The annual requirements to pay principal and interest on debt outstanding at December 31, 2006, are as follows:

<u>Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2007	\$ 170,798	\$ 13,642	\$ 184,440
2008	93,413	7,157	100,570
2009	96,925	3,644	100,569
Total	\$ 361,136	\$ 24,443	\$ 385,579

ST. JOSEPH COUNTY ROAD COMMISSION

NOTES TO FINANCIAL STATEMENTS

Accrued Sick and Vacation

After the first six months of employment, employees earn one vacation day per month of service. In addition, one floating holiday is available every January 1st. Seniority days are based on employees' length of service, up to a maximum of 18 days for 40 years of service for all employees. Also, one personal day is granted each year, which cannot be carried over. Up to 15 accrued vacation and seniority days may be carried over and used in the succeeding year.

Sick leave is earned at the rate of 6 days per year and up to 60 days may be accumulated.

The employees' vacation pay, no greater than 80 hours, and sick pay are payable to employees who resign with proper notice, retire, or die.

5. PROPERTY TAXES

In December 2005, St. Joseph County levied 1 mill of real and personal property tax to townships within the County for the benefit of County roads. The total amount of the levy was \$947,963. Property taxes become an enforceable lien on property as of December 1. Taxes are levied on December 1, and are payable by February 14. The townships within the County bill and collect property taxes for the County, and the taxes are substantially collected by March 1st.

6. PENSION PLAN

The Road Commission established the St. Joseph County Road Commission Money Purchase Pension Plan, a single-employer defined contribution plan, on October 15, 1981. The plan, established to meet the requirements of Act No. 249, Public Acts of 1943, covers substantially all employees of the Road Commission. The Road Commission is required to contribute 6% of covered payroll at the end of each plan year. Employees do not contribute to the plan. Fifth Third Bank, Kalamazoo, Michigan is the trustee and administers the pension plan.

Plan provisions and contribution requirements are established and may be amended by the Board of County Road Commissioners. There is no service requirement in order to be eligible to participate in the plan.

Upon termination of employment for reasons other than retirement, total and permanent disability, or death, a participant is entitled to receive 100% of the participant's amount representing the vested percentage of the balance in the participant's employer contribution account at the date of termination of employment.

The Road Commission's contributions for each employee (and interest allocated to the employee's account) are partially vested after three (3) years of continuous service and fully vested after seven (7) years of continuous service.

For the plan year ended October 31, 2006, the Road Commission contributed \$101,441 (representing 6% of covered payroll) to the plan.

ST. JOSEPH COUNTY ROAD COMMISSION

NOTES TO FINANCIAL STATEMENTS

7. RISK MANAGEMENT

The Road Commission is a member of the Michigan County Road Commission Self-Insurance Pool “Pool” established pursuant to the laws of the State of Michigan which authorizes contracts between municipal corporations (inter local agreements) to form group self-insurance pools, and to prescribe conditions to the performance of these contracts.

The Michigan County Road Commission Self-Insurance Pool was established for the purpose of making a self-insurance pooling program available for Michigan County Road Commissions, which includes, but is not limited to, general liability coverages, auto liability coverages, property insurance coverages, stop loss insurance protection, claims administration, and risk management and loss control services pursuant to Michigan Public Act 138 of 1982.

The St. Joseph County Road Commission pays an annual premium to the Pool for general liability, excess liability, errors and omissions, auto liability, auto comprehensive, auto collision, equipment and building and contents.

The agreement for the formation of the Pool provides that the Pool will be self-sustaining through member premiums and will purchase both specific and aggregate stop-loss insurance to the limits determined necessary by the Pool Board.

The Road Commission is also self-insured for workers’ compensation as a member of the County Road Association Self Insurance Fund. The estimated amount of the IBNR, or “Incurred But Not Reported” claims associated with the self-insurance arrangements is not considered to be material at December 31, 2006.

The Road Commission continues to carry commercial insurance for all other risks of loss, including life insurance, health program, data processing, commercial crime and boiler and machinery. Settled claims have not exceeded insurance coverage for the last three years.

8. CONTINGENCY

Until 1992, the Road Commission operated a garage in the Village of Leonadis. Over the years, tests have confirmed concentrations of sodium and chloride in the well water. On November 22, 2005, the Michigan Department of Environmental Quality delivered to the Road Commission a demand letter for the voluntary performance of certain response activities under a federal act. The Road Commission does not believe it has full liability for this contamination. Due to the inconclusive nature of the extent of the response activities to be required of the Road Commission, it is not possible to determine the probable outcome or a reasonable estimate of the Road Commission’s potential liability. No provision for any loss has been made in the accompanying financial statements.

ST. JOSEPH COUNTY ROAD COMMISSION

NOTES TO FINANCIAL STATEMENTS

9. POSTEMPLOYMENT BENEFITS

The Road Commission provides both health and life insurance benefits for retired employees meeting specific years of continued service requirements. The Road Commission will provide 100% health insurance coverage comparable to that provided to active employees for those retirees aged 62 to 65, providing the premium for the plan selected remains under the established annual cap. If the retiree selects a plan with a premium over the cap, the Road Commission will, depending on the retiree's classification, pay either 90% or 95% of the health insurance coverage. The Road Commission will provide 100% of the premium for a \$2,000 life insurance policy for retirees aged 62 to 65. Costs incurred by the Road Commission during 2006 amounted to \$9,621. The Road Commission currently has one retired employee receiving benefits under the plan.

The Governmental Accounting Standards Board has recently released Statement No. 45, "Accounting and Reporting by Employers for Postemployment Benefits Other Than Pensions." The new pronouncement provides guidance for local units of government in recognizing the cost of retiree health care, as well as any "other" postemployment benefits (other than pensions). The new rules will cause the government-wide financial statements to recognize the cost of providing retiree health care coverage over the working life of the employee, rather than at the time the health care premiums are paid. The new pronouncement is effective for the year ending December 31, 2008. Management is currently assessing the impact of this new accounting standard on the Road Commission's financial statements for future reporting periods.

* * * * *

OPERATING FUND SCHEDULES

ST. JOSEPH COUNTY ROAD COMMISSION

SCHEDULE OF REVENUE, EXPENDITURES AND CHANGES IN FUND BALANCES

FOR THE YEAR ENDED DECEMBER 31, 2006

	DESIGNATED		UNDESIGNATED	
	PRIMARY	LOCAL	COUNTY	
	ROAD FUND	ROAD FUND	ROAD FUND	TOTAL
REVENUE				
Permits	\$ -	\$ -	\$ 10,134	\$ 10,134
Intergovernmental:				
State sources	3,187,985	1,627,563	-	4,815,548
Local sources	-	461,049	-	461,049
Charges for services	-	-	6,521	6,521
Interest and rentals	6,619	15,744	15,844	38,207
Taxes				
County wide millage	-	1,014,444	-	1,014,444
Transfer from primary government	-	30,000	-	30,000
Other	(2,962)	581	985	(1,396)
TOTAL REVENUE	3,191,642	3,149,381	33,484	6,374,507
EXPENDITURES				
Heavy maintenance	42,276	677,523	-	719,799
Maintenance	1,540,003	2,703,399	-	4,243,402
Equipment - net	43,621	110,072	42,094	195,787
Administrative - net	138,789	296,555	-	435,344
Other	2,816	1,862	-	4,678
Capital outlay - net	(51,009)	-	251,993	200,984
Debt principal	-	-	192,452	192,452
Interest and fiscal charges	-	-	21,484	21,484
TOTAL EXPENDITURES	1,716,496	3,789,411	508,023	6,013,930
REVENUE OVER (UNDER) EXPENDITURES	1,475,146	(640,030)	(474,539)	360,577
OTHER FINANCING SOURCES (USES)				
Proceeds from installment lease	-	-	367,132	367,132
Internal transfers in	-	640,030	-	640,030
Internal transfers out	(640,030)	-	-	(640,030)
TOTAL OTHER FINANCING SOURCES (USES)	(640,030)	640,030	367,132	367,132
NET CHANGE IN FUND BALANCES	835,116	-	(107,407)	727,709
FUND BALANCE, Beginning of year	329,298	783,276	652,172	1,764,746
FUND BALANCE, End of year	\$ 1,164,414	\$ 783,276	\$ 544,765	\$ 2,492,455

ST. JOSEPH COUNTY ROAD COMMISSION

DETAIL SCHEDULE OF REVENUE BUDGET AND ACTUAL GENERAL OPERATING FUND

FOR THE YEAR ENDED DECEMBER 31, 2006

	AMENDED BUDGET	ACTUAL	VARIANCE - OVER (UNDER)
Permits	\$ 9,500	\$ 10,134	\$ 634
State sources:			
Motor Vehicle Highway Funds - Act 51:			
Engineering	10,000	10,000	-
Primary roads allocation	3,000,000	2,990,275	(9,725)
Local roads allocation	1,525,000	1,549,711	24,711
Primary urban roads	190,000	191,090	1,090
Local urban roads	74,000	74,472	472
Economic Development Fund	-	-	-
Total State Sources	4,799,000	4,815,548	16,548
Local sources:			
Township and developer contributions	450,000	461,049	11,049
Charges for services:			
Salvage sales	6,500	6,521	21
Interest and rentals	35,500	38,207	2,707
Taxes:			
County wide millage	1,010,000	1,014,444	4,444
Transfer from primary government	30,000	30,000	-
Other:			
Gain (loss) on equipment disposal	(7,000)	(6,909)	91
Other	3,550	5,513	1,963
Total Other Revenue	(3,450)	(1,396)	2,054
 TOTAL REVENUE	 \$ 6,337,050	 \$ 6,374,507	 \$ 37,457

ST. JOSEPH COUNTY ROAD COMMISSION

GENERAL OPERATING FUND DETAIL SCHEDULE OF EXPENDITURES - BUDGET AND ACTUAL

FOR THE YEAR ENDED DECEMBER 31, 2006

	AMENDED BUDGET	ACTUAL	VARIANCE - OVER (UNDER)
Construction	\$ -	\$ -	\$ -
Heavy maintenance:			
Primary roads and structures	55,000	42,276	(12,724)
Local roads and structures	670,000	677,523	7,523
Total Heavy Maintenance	725,000	719,799	(5,201)
Maintenance:			
Primary roads and structures, winter and traffic control	1,560,000	1,540,003	(19,997)
Local roads and structures, winter and traffic control	2,816,000	2,703,399	(112,601)
Total Maintenance	4,376,000	4,243,402	(132,598)
Equipment:			
Direct	910,000	908,919	(1,081)
Indirect	500,000	534,718	34,718
Operating	350,000	316,923	(33,077)
Less: Equipment rental	(1,600,000)	(1,564,773)	35,227
Total Equipment, net	160,000	195,787	35,787
Administrative:			
Administration	425,000	435,344	10,344
Capital outlay:			
Buildings and equipment	900,000	778,836	(121,164)
Less - Depreciation	(550,000)	(570,543)	(20,543)
- Retirements	(7,300)	(7,309)	(9)
Total Capital Outlay, net	342,700	200,984	(141,716)
Other	-	4,678	4,678
Debt service:			
Principal retirement	193,000	192,452	(548)
Interest and fiscal charges	21,500	21,484	(16)
Total Debt Service	214,500	213,936	(564)
TOTAL EXPENDITURES	\$ 6,243,200	\$ 6,013,930	\$ (229,270)



REHMANN ROBSON

Certified Public Accountants

A member of THE REHMANN GROUP



April 12, 2007

The Board of County Road Commissioners
of St. Joseph County, Michigan
Centreville, Michigan

We have audited the basic financial statements of ***ST. JOSEPH COUNTY ROAD COMMISSION, a component unit of St. Joseph County***, as of and for the year ended December 31, 2006, and have issued our report thereon dated April 12, 2007

Professional standards require that we provide you with the following information related to our audit.

Our Responsibility under Generally Accepted Auditing Standards

As stated in our engagement letter dated January 11, 2007, our responsibility, as described by professional standards, is to plan and perform our audit to obtain reasonable, but not absolute, assurance that the financial statements are free of material misstatement and are fairly presented in accordance with accounting principles generally accepted in the United States of America. Because an audit is designed to provide reasonable, but not absolute assurance and because we did not perform a detailed examination of all transactions, there is a risk that material misstatements may exist and not be detected by us.

As part of our audit, we considered the internal control of St. Joseph County Road Commission. Such considerations were solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control.

Significant Accounting Policies

Management has the responsibility for selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we advised management about the appropriateness of accounting policies and their application. The significant accounting policies used by St. Joseph County Road Commission are described in Note 1 to the basic financial statements. No new accounting policies were adopted and the application of existing policies was not changed during the fiscal year ended December 31, 2006. We noted no transactions entered into by St. Joseph County Road Commission during the year that were both significant and unusual, and of which, under professional standards, we are required to inform you, or transactions for which there is a lack of authoritative guidance or consensus.

Accounting Estimates

Accounting estimates are an integral part of the basic financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the basic financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimate affecting the financial statements was:

- Management's estimate of the useful lives of depreciable capital assets is based on the length of time it is believed that those assets will provide some economic benefit in the future. We evaluated the key factors and assumptions used to develop the useful lives of those assets in determining that they are reasonable in relation to the financial statements taken as a whole.

Significant Audit Adjustments

For purposes of this letter, professional standards define a significant audit adjustment as a proposed correction of the financial statements that, in our judgment, may not have been detected except through our auditing procedures. An audit adjustment may or may not indicate matters that could have a significant effect on St. Joseph County Road Commission's financial reporting process (that is, cause future financial statements to be materially misstated). We proposed no audit adjustments that could, in our judgment, either individually or in the aggregate, have a significant effect on St. Joseph County Road Commission.

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a matter, whether or not resolved to our satisfaction, concerning a financial accounting, reporting, or auditing matter that could be significant to the basic financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the governmental unit's basic financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Issues Discussed Prior to Retention of Independent Auditors

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as St. Joseph County Road Commission's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

Difficulties Encountered in Performing the Audit

We encountered no difficulties in dealing with management in performing our audit.

This letter and the accompanying memorandum is intended for the use of the Board of Road Commissioners and management of St. Joseph County Road Commission, a component unit of St. Joseph County and respective federal and state grantor agencies. However, this report is a matter of public record and its distribution is not limited.

Very truly yours,

A handwritten signature in black ink, reading "Lehmann Lohman". The signature is written in a cursive style with a large, prominent 'L' at the beginning.

ST. JOSEPH COUNTY ROAD COMMISSION

COMMENT AND RECOMMENDATION

For the Year Ended December 31, 2006

This memorandum does not affect our report dated April 12, 2007, on the basic financial statements of St. Joseph County Road Commission.

OPEB Liability

The Road Commission, as well as other governmental units which offer other post employment benefits (health and life insurance benefits to retirees, or "OPEB") are going to require recording the annual cost and liability in the annual financial statements. Up until this new accounting standard is implemented, governmental units, including the Road Commission, have been on a "pay as you go" or cash basis to reflect these costs in their financial statements. This accounting treatment stays in place for the Road Commission through the fiscal year ended December 31, 2007. Then, for fiscal year 2008, this new reporting standard will require an actuarial report in order to determine funding requirements to force recording of a liability while service is rendered (normal cost), plus an adjustment for past service costs (called amortization of actuarial accrued liability).

The amount of the annual "ARC" expense must be recorded on each entity's financial statements. To the extent that this annual "ARC" amount is not currently funded, the under-funding must be reported on the entity's balance sheet as a liability.

This comment is intended as an informational point. Accordingly, the Road Commission should make sure all preparations and forecasts are addressed as the implementation date draws nearer.

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